

STATE SETTLEMENT AGREEMENT AND RELEASE

I. PARTIES

This Settlement Agreement ("Agreement") is entered into by the State of Michigan ("the State") and The Purdue Frederick Company, Inc. ("Purdue Frederick") and Purdue Pharma L.P. (collectively "Company"), hereinafter collectively referred to as "the Parties "

II. PREAMBLE

As a preamble to this State Agreement, the Parties agree as follows:

A. The Purdue Frederick Company, Inc., a New York corporation, and Purdue Pharma L.P., a limited partnership under the laws of Delaware, are privately-held businesses that were or are engaged in marketing pharmaceutical products, including OxyContin.

B. Company has agreed that The Purdue Frederick Company, Inc. will enter into a plea agreement with the United States Attorney for the Western District of Virginia (the "Plea Agreement"), under which, if the Plea Agreement is approved by the Court, the Purdue Frederick Company, Inc. will enter a plea of guilty pursuant to Fed. R. Crim. P. 11(c)(1)(C) to an Information to be filed in United States of America v. The Purdue Frederick Company, Inc. (Western District of Virginia) (the "Criminal Action") that will allege that The Purdue Frederick Company, Inc. violated 21 U.S.C. § 333(a)(2) by knowingly and fraudulently misbranding OxyContin as being less addictive, less subject to abuse and diversion and less likely to cause tolerance and withdrawal problems than other pain medications.

C. WHEREAS, the State contends that Company caused to be submitted claims for payment for OxyContin to its Medicaid Program, established pursuant to or in connection with Title XIX of the Social Security Act, 42 U.S.C. §§ 1396-1396v (the “Medicaid Program”);

D. The State contends that it has certain civil claims against Company for, during the time period from 1995 through 2005, engaging in the following conduct with respect to the marketing of OxyContin (hereinafter the “Covered Conduct”): Specifically, the State alleges that the Company marketed OxyContin as less subject to abuse, illicit use and diversion and as less addictive and less likely to cause tolerance and withdrawal than other pain medications and that Company knew that these marketing claims were false and misleading, causing damage to the Medicaid Program.

E. The State contends that the Medicaid program was damaged as a result of the Covered Conduct.

F. The Company denies the allegations of the State as set forth in the preamble paragraphs of this agreement and denies that it has any liability relating to these contentions and allegations.

G. The Company has previously entered into a Settlement Agreement with the United States of America regarding the Covered Conduct (the “Federal Civil Settlement Agreement”). Pursuant to the Federal Civil Settlement Agreement, the United States has recouped all monies due it in compromise of any liability the Company has or had for Federal Financial Participation in claims submitted to the State’s Medicaid program.

H. To avoid the delay, expense, inconvenience, and uncertainty of protracted litigation of these claims, the Parties mutually desire to reach a full and final settlement as set forth below.

III. TERMS AND CONDITIONS

NOW, THEREFORE, in reliance on the representations contained herein and in consideration of the mutual promises, covenants, and obligations in this Agreement, and for good and valuable consideration, receipt of which is hereby acknowledged, the Parties agree as follows:

1. Company agrees to pay to the State \$1,419,303.66 plus applicable interest ("the Individual State Settlement Amount"). Company agrees to pay the Individual State Settlement Amount as follows:

A. Company shall deposit into a dedicated interest-bearing account it establishes for this purpose with a national banking institution (the "State Settlement Account") the sum of \$59,384,202.75 (the "Total Medicaid State Settlement Amount"), which represents the aggregate amount of funds available to states that enter into this Agreement with Company for the Covered Conduct ("the Participating States.")

B. Company shall make such deposit no later than seven (7) business days following the date of the Company's entry of its Fed. R. Crim. P 11(c)(1)(c) plea in connection with the Plea Agreement

C. The total portion paid by Company in settlement for alleged injury to the Medicaid Program for the State is \$3,013,088.09, consisting of the Individual State Settlement Amount paid to the State under this Agreement and another portion paid to the federal government pursuant to the Federal Civil Settlement Agreement.

D. On August 31, 2007 ("the Transfer Date"), Company shall transfer the Individual State Settlement Amounts for the Participating States and all applicable interest from

the State Settlement Account to an account designated by the National Association of Medicaid Fraud Control Units ("NAMFCU") Negotiating Team for distribution to the Participating States, according to instructions received from a representative of the NAMFCU Negotiating Team. Any remaining funds and corresponding interest in the State Settlement Account relating to states that have not entered into settlements with Company by the Transfer Date shall be disbursed to Company, provided, however, that such Date may be extended by mutual agreement of the Parties. Notwithstanding the above, the Transfer Date shall be no earlier than seven (7) business days after the Court accepts the plea of and imposes the agreed-upon disposition on The Purdue Frederick Company, Inc. in the Criminal Action.

E If the plea of The Purdue Frederick Company, Inc. pursuant to Fed. R. Crim. P. 11(c)(1)(C) in the Criminal Action described in Preamble Paragraph B is not accepted by the Court or the Court does not impose the agreed upon disposition for whatever reason, this Agreement shall be null and void at the option of either the State or Company. If either the State or Company exercises this option, which option shall be exercised by notifying all Parties, through counsel, in writing within ten (10) business days of the Court's decision, the Parties will not object to rescission, this Agreement will be rescinded, and all monies paid hereunder, plus interest accrued thereon, shall be repaid to Company. If this Agreement is rescinded, Company will not plead, argue or otherwise raise any defenses under the theories of statute of limitations, laches, estoppel or similar theories to any civil or administrative claims, actions or proceedings which are brought by the State within 90 calendar days of notification to all other Parties of that rescission, except to the extent such defenses were available before March 29, 2006.

2. In consideration of this Agreement and payment set forth herein and subject to the exceptions from release set forth in Paragraph 3 below, the State on behalf of itself, its officers,

agents, agencies and departments shall release and forever discharge Company and its current and former directors, officers, employees, affiliates, owners, predecessors, successors and assigns from any civil or administrative monetary claim that the State has or may have for any claim submitted or caused to be submitted to the State Medicaid Program for the Covered Conduct

3. Notwithstanding any term of this Agreement, the State specifically reserves and excludes from the scope and terms of this Agreement as to any entity or person the following: (a) any criminal, civil or administrative claims arising under State revenue codes; (b) any criminal liability; (c) any civil or administrative liability that Company has or may have under any state statute, regulation, or rule not covered by the release; (d) except as explicitly stated in this Agreement, any administrative liability, including mandatory exclusion from the State's Medicaid program; (e) any liability to the State (or its agencies) for any conduct other than the Covered Conduct; (f) any claims based upon such obligations as are created by this State Settlement Agreement; (g) any liability for express or implied warranty claims or other claims for defective or deficient products or services, including quality of goods or services; (h) any claims for personal injury or property damage or for other consequential damages arising from the Covered Conduct; and (i) any liability for failure to deliver goods or services due

4. In consideration of the obligations of Company set forth in this Agreement, conditioned upon Company's payment in full of the Medicaid State Settlement Amount into the State Settlement Escrow Account, as provided in Section III paragraph 1(B) above, and except as reserved in Paragraph 3 above, the State agrees to release and refrain from instituting, directing or maintaining any administrative claim or any action seeking exclusion from the State's Medicaid program against Company and its current and former directors, officers, employees,

affiliates, owners, predecessors, successors and assigns for the Covered Conduct. Nothing in this Agreement precludes the State from taking action against Company in the event that Company is excluded by the federal government, or for conduct and practices other than the Covered Conduct. The Medicaid Fraud Control Unit for the State further agrees to refrain from recommending, causing or attempting to cause any administrative action or sanction, including debarment, by any other government agency of the State for the Covered Conduct. The Company acknowledges that the State does not have the authority to release the Company from any claims or actions which may be asserted by any private payor or private insurer with respect to any state Medicaid program in which the private payor or private insurer provides health insurance coverage to Medicaid recipients and is paid for such coverage by the state Medicaid program on a capitated basis.

5. The Company fully and finally releases the State, its agencies, employees, servants, and agents from any claims (including attorneys fees, costs, and expenses of every kind and however denominated) which the Company has asserted, could have asserted, or may assert in the future against the State, its agencies, employees, servants, and agents, related to or arising from the investigation and prosecution of the Covered Conduct up to the effective date of this Agreement.

6. Upon reasonable notice and request, Company will make reasonable efforts to cooperate with and furnish to the State non-privileged documents and records in its possession relevant to a pending state investigation or matter.

7. The Company waives and will not assert any defenses it may have to any criminal prosecution or administrative action relating to the Covered Conduct which defenses may be based in whole or in part on a contention that, under the Double Jeopardy Clause of the Fifth

Amendment of the Constitution or Excessive Fines Clause of the Eighth Amendment of the Constitution, this Agreement bars a remedy sought in such criminal prosecution or administrative action.

8. The Individual Settlement Amount that the Company shall pay will not be decreased as a result of the denial of any claims for payment now being withheld from payment by the State's Medicaid program where such denial resulted from the Covered Conduct. If applicable, the Company agrees not to resubmit to the program any previously denied claims where such denial resulted from the Covered Conduct and agrees not to appeal any such denials of claims

9. This Agreement is intended to be for the benefit of the Parties only, and by this instrument the Parties do not release any claims against any other person or entity including, but not limited to, any individual or entity that purchased OxyContin from the Company, except as provided for in Paragraph 11, below.

10. Company waives and shall not seek payment for any of the health care billings covered by this Agreement from any health care beneficiaries or their parents, sponsors, legally responsible individuals, or third party payers based upon the claims defined as Covered Conduct.

11. Nothing in any provision of this Agreement constitutes an agreement by the State concerning the characterization of the Individual State Settlement Amount for purposes of state internal revenue laws.

12. This Agreement does not constitute an admission by any person or entity, and shall not be construed as an admission by any person or entity, with respect to any issues of law or fact.

13 Company warrants that it has reviewed its financial situation and that it currently is solvent within the meaning of 11 U.S.C. 547(b)(3) and 548(a)(1)(B)(ii)(I), and shall remain solvent following payment to the United States and to the Participating States under the Federal Civil Settlement Agreement and under this Agreement. Further, the Parties warrant that, in evaluating whether to execute this agreement, they (a) have intended that the mutual promises, covenants, and obligations set forth constitute a contemporaneous exchange for new value given to Company, within the meaning of 11 U.S.C. 547(c)(1); and (b) conclude that these mutual promises, covenants, and obligations do, in fact, constitute such a contemporaneous exchange. Further, the Parties warrant that the mutual promises, covenants, and obligations set forth herein are intended to and to, in fact, do represent a reasonably equivalent exchange of value that is not intended to hinder, delay, or defraud any entity that Company was or became indebted to on or after the date of transfer, within the meaning of 11 U.S.C. 548(a)(1)

14. In addition to all other payment and responsibilities under this Agreement, Company agrees to pay all reasonable travel costs and expenses ("Expenses") of the NAMFCU Negotiating Team.

15. The Company represents that this Agreement is freely and voluntarily entered into without any degree of duress or compulsion whatsoever.

16 The undersigned Company signatory represents and warrants that he is duly authorized as a result of appropriate corporate action to execute this Agreement. The undersigned State signatories represent that they are signing this Agreement in their official capacities and they are authorized to execute this Agreement on behalf of the State through their respective agencies and departments.

17. This Agreement is governed by the laws of the State.

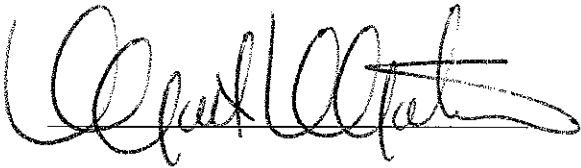
18. This Agreement is effective on the date of signature of the last signatory to the Agreement.

19. This Agreement shall be binding on all successors, transferees, heirs and assigns of the Parties.

20. This Agreement constitutes the complete agreement between the Parties with regard to the Covered Conduct. This Agreement may not be amended except by written consent of the Parties.

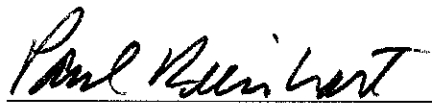
21. Each party agrees to perform any further acts and to execute and deliver any further documents reasonably necessary to carry out this Agreement. This Agreement may be executed in counterparts, each of which shall constitute an original and all of which shall constitute one and the same Agreement.

For the State of Michigan:

By:  Dated: 8/15/2007

Title: Assistant Attorney General

For the State of Michigan Medicaid Program:

By:  Dated: 7-9-07

Title: Michigan Medicaid Director

COMPANY

By: _____

Dated: _____

Name: Robin E. Abrams, Esq.

Position: Vice President, Associate General Counsel

Purdue Pharma L.P.
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(203) 588-8477
Robin.Abrams@pharma.com

By: _____

Dated: _____

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COMPANY

By: Robin E Abrams Dated: August 30, 2007

Name: Robin E. Abrams, Esq.

Position: Vice President, Associate General Counsel

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By: Lynn Shapiro Snyder Dated: 8/30/07

Lynn Shapiro Snyder, Esq.
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